

Message Text

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17

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CAB-05 CIAE-00 COME-00 DODE-00

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1052

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

UNCLAS OTTAWA 3704

E.O. 11652: N/A

TAGS: EAIR, CA

SUBJ: CIVAIR: IATA NORTH ATLANTIC FARE
NEGOTIATIONS

REF: OTTAWA 3680

1. IN CONNECTION WITH SULLIVAN REMARKS ABOUT FINANCING
OF AIR CANADA LOSSES, DEPARTMENT'S ATTENTION IS CALLED TO
PAGE 5 OF CARRIER'S ANNUAL REPORT FOR 1975 WHICH INDICATES
LONG-TERM DEBT WAS INCREASED BY \$118 MILLION LAST YEAR AND
THIS IMPROVED COMPANY'S WORKING CAPITAL FROM \$27 MILLION
AT END OF 1974 TO \$99 MILLION FOLLOWING YEAR'S END. IN
ADDITION, SALE AND LEASE BACK OF 13 ARCRAFT TO CANADIAN
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FINANCIAL INSTITUTIONS YIELDED \$158 MILLION WHICH

REPRESENTED MORE THAN 90 PERCENT OF THE LONG-TERM FUNDS RAISED IN 1975.

2. REPORT ADDS:

QUOTE. BECAUSE OF THE DEVELOPMENT OF AIRCRAFT LEASING ARRANGEMENTS, THE NEED FOR FINANCING FROM THE FEDERAL GOVERNMENT, THE TRADITIONAL SOURCE OF THE AIRLINE'S LONG-TERM FINANCING REQUIREMENTS, HAS BEEN VIRTUALLY ELIMINATED FOR THE CURRENT YEAR AND IN THE FORESEEABLE FUTURE. THE ONLY FEDERAL FUNDS RECEIVED THIS YEAR ARE EXPRESSLY FOR THE WINNIPEG LINE MAINTENANCE HANGAR.

IF AIR CANADA HAD A MORE CONVENTIONAL DEBT/EQUITY RATIO OF 50/50 THE COMPANY WOULD HAVE REDUCED INTEREST EXPENSES BY MORE THAN \$30 MILLION AND SHOWN A NET PROFIT OF ABOUT \$2.9 MILLION. UNQUOTE.

3. PRESS REPORTED LAST MONTH THAT AIR CANADA DISCLOSED RECORD FIRST HALF LOSSES OF \$47.5 MILLION, UP FROM \$30.3 MILLION IN THE SAME PERIOD OF 1975, \$44.1 MILLION AND \$15.1 MILLION RESPECTIVELY ON AN AFTER TAX BASIS. REVENUES DURING FIRST SIX MONTHS WERE AT \$480 MILLION VERSUS \$447 MILLION IN THAT PERIOD OF 1975. NINE-DAY SHUTDOWN OF CANADIAN AIR SERVICES IN JUNE OVER THE BILINGUALISM QUESTION WAS BLAMED AS MAJOR CONTRIBUTING FACTOR IN THE 1976 LOSS. AIR CANADA PRESIDENT TAYLOR QUOTED AS SAYING SHUTDOWN COST THE COMPANY \$22.5 MILLION IN LOST PRE-TAX PROFITS.

4. DOMESTIC FARE INCREASES EXPECTED TO HELP OVERCOME INCREASE IN DEFICIT, BUT LONGER TERM CARRIER HOPE IS FOR MORE VOLUME. NINE PERCENT MORE PASSENGERS CARRIED IN FIRST FIVE MONTHS OF 1976 (PRIOR TO JUNE SHUTDOWN) AND PERCENTAGE OF AVAILABLE SEATS ACTUALLY OCCUPIED (SYSTEM-WIDE) ROSE IN THAT PERIOD FROM 57 TO 59 PERCENT. TO REDUCE SEAT MILE COSTS AIR CANADA ANNOUNCED IT WOULD REMOVE FIRST CLASS SECTIONS FROM ITS 52 DC-9'S, ADDING SEVEN ADDITIONAL SEATS TO EACH FOR A CAPACITY OF 102. IN ADDITION, NINE ABREAST UNCLASSIFIED

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SEATING (INSTEAD OF EIGHT) WILL BE INTRODUCED ON THE L-1011'S. (NOTE: BOTH OF THESE AIRCRAFT TYPES ARE USED ESSENTIALLY ON DOMESTIC AND TRANSBORDER ROUTES AND CONFIGURATION CHANGES WILL NOT BE FULLY EFFECTIVE UNTIL 1980.)

5. COPIES OF 1975 AIR CANADA REPORT WERE FORWARDED ON AUG. 23 UNDER CERP TO STATE (LR)(EUR/CAN)(EB/OA);

CAB; COM; DOT; FAA; AND OSD/DIL.
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Disposition Event:
Disposition History: n/a
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